



STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

HUMANA MEDICAL PLAN OF UTAH, INC.

of

Sandy, Utah

as of

December 31, 2013

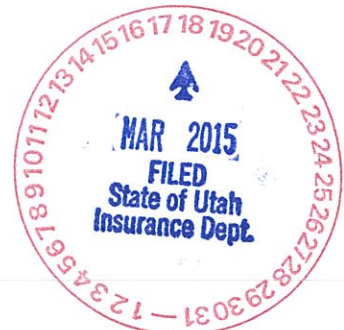


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January 30, 2015

Honorable Todd E. Kiser, Commissioner
Utah Insurance Department
3110 State Office Building
Salt Lake City, Utah 84114

Pursuant to your instructions and in compliance with statutory requirements, a single-state examination, as of December 31, 2013, has been made of the financial condition and business affairs of:

HUMANA MEDICAL PLAN OF UTAH, INC.
Sandy, Utah

hereinafter referred to in this report as the Organization, and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

The last examination was conducted as of December 31, 2009. This examination covers the period of January 1, 2010 through December 31, 2013, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

Examination Procedure Employed

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Organization by obtaining information about the Organization including corporate governance, identifying and assessing inherent risks within the Organization and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Organization were considered in accordance with the risk-focused examination process.

Status of Prior Examination Findings

The previous examination of the Organization was completed as of December 31, 2009. There were no findings in the prior examination.

SUMMARY OF SIGNIFICANT FINDINGS

There are no significant findings as a result of this examination.

SUBSEQUENT EVENTS

There were no subsequent events that would require disclosure.

ORGANIZATION HISTORY

General

Humana Medical Plan of Utah, Inc. was organized on February 7, 2007 and commenced business on March 2, 2007 to provide a Title XVIII Medicare plan in Utah. It holds a certificate of authority to operate as a Health Maintenance Organization (HMO) in the state of Utah. The Organization is a wholly owned subsidiary of Humana Inc. (Humana), a Delaware insurance holding company, which owns one hundred percent (100%) of the issued and outstanding shares of common capital stock. The Organization provides medical coverage to Medicare-eligible individuals under a Medicare Advantage contract with the Centers for Medicare and Medicaid Services (CMS). The Organization is also a licensed dental and vision insurance plan provider in Utah.

As of January 1, 2014, the Organization began offering individual coverage through the health insurance exchange under the provisions of the Patient Protection and Affordable Care Act (ACA).

The articles of incorporation were filed with the Utah Division of Corporations on February 7, 2007, at which date the bylaws were also adopted. No amendments have been made to the Organization's articles or bylaws since its inception.

Dividends and Capital Contributions

The Organization did not declare or pay any dividends during the examination period.

Humana contributed a total of \$31,500,000 gross paid in and contributed surplus during the examination period, consisting of a \$1,500,000 capital contribution in December 2011, a \$15,000,000 capital contribution in February 2012, and a \$15,000,000 capital contribution in December 2012.

Mergers and Acquisitions

There were no mergers or acquisitions during the period of this examination.

CORPORATE RECORDS

The minutes of meetings of stockholders, directors, and board committees were reviewed for compliance and adequately approve and support the Organization's transactions and events.

The previous examination report as of December 31, 2009, dated July 15, 2010, was distributed to the board of directors on September 1, 2010.

MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE

The bylaws of the Organization indicate the number of directors shall be no less than three or more than fifteen.

The following persons served as directors of the Organization as of December 31, 2013:

<u>Name and Location</u>	<u>Title and Principal Occupation</u>
Bruce D. Broussard Louisville, KY	President & Chief Executive Officer, Humana Inc.
James E. Murray Louisville, KY	Executive Vice President & Chief Operating Officer, Humana Inc.
James H. Bloem Louisville, KY	Senior Vice President, Chief Financial Officer & Treasurer, Humana, Inc.

On December 31, 2013, James H. Bloem retired. Effective January 1, 2014, Roy Beveridge, MD, Senior Vice President & Chief Medical Officer of Humana Inc., was elected as a director of the Organization.

The Organization's bylaws provide for officers to consist of a President, a Vice President, a Secretary, a Treasurer, and such other officers as may be elected or appointed.

The principal officers of the Organization as of December 31, 2013, were as follows:

<u>Name</u>	<u>Title and Principal Occupation</u>
Bruce D. Broussard	President & Chief Executive Officer
James H. Bloem	Senior Vice President, CFO & Treasurer
Joan O. Lenahan	Vice President & Corporate Secretary
Jonathan A. Canine	Appointed Actuary

On December 31, 2013, James H. Bloem retired. On January 1, 2014, Steven E. McCulley was elected Interim Chief Financial Officer and served in that capacity until June 2, 2014. Brian A. Kane was elected Senior Vice President and Chief Financial Officer on June 2, 2014, replacing Mr. McCulley.

The Organization is overseen by Humana's board committees. Board committees are established at the Humana Inc. level and serve in their respective capacities on behalf of all Humana entities. Committees and the respective committee members of the Organization as of December 31, 2013 were as follows:

Audit Committee	
<u>Name</u>	<u>Title and Principal Occupation</u>
Frank A. D'Amelio, Chair	Executive Vice President, Business Operations and Chief Financial Officer, Pfizer, Inc.
William E. Mitchell	Managing Partner, Sequel Capital Management, LLC
David B. Nash, M.D.	Founding Dean, Jefferson School of Population Health, Thomas Jefferson University
James J. O'Brien	Chairman and CEO, Ashland Inc.

Investment Committee	
<u>Name</u>	<u>Title and Principal Occupation</u>
W. Roy Dunbar, Chair	Former Chairman, NetworkSolutions
Frank A. D'Amelio	Executive Vice President, Business Operations and Chief Financial Officer, Pfizer, Inc.
William J. McDonald	Managing Partner, Wild Irishman Advisory, LLC
James J. O'Brien	Chairman and CEO, Ashland Inc.

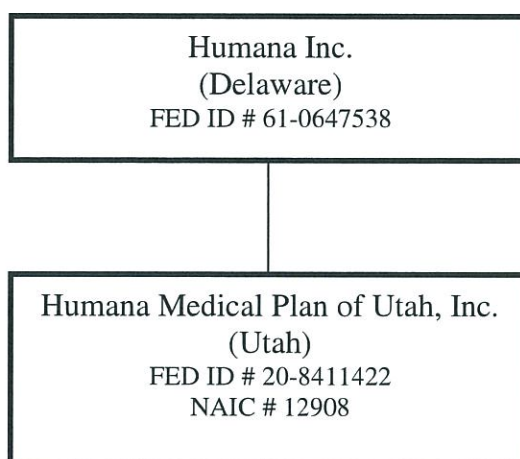
Executive Committee	
<u>Name</u>	<u>Title and Principal Occupation</u>
Bruce D. Broussard, Chair	President and CEO, Humana Inc.
Kurt J. Hilzinger	Partner, Court Square Capital Partners, LP
David A. Jones, Jr.	Chairman, Chrysalis Ventures, LLC

Nominating & Corporate Governance Committee	
<u>Name</u>	<u>Title and Principal Occupation</u>
David A. Jones, Jr., Chair	Chairman, Chrysalis Ventures, LLC
William E. Mitchell	Managing Partner, Sequel Capital Management, LLC
Marissa T. Peterson	Former Executive Vice President, Sun Microsystems, Inc.

Organization & Compensation Committee	
<u>Name</u>	<u>Title and Principal Occupation</u>
William J. McDonald, Chair	Managing Partner, Wild Irishman Advisory, LLC
W. Roy Dunbar	Former Chairman, NetworkSolutions
David A. Jones, Jr.	Chairman, Chrysalis Ventures, LLC
Marissa T. Peterson	Former Executive Vice President, Sun Microsystems, Inc.

Holding Company

The Organization is one hundred percent (100%) owned and controlled by Humana Inc. A full organizational chart illustrating the holding company system was provided in Schedule Y of the Annual Statement. The following organizational chart depicts only the direct line ownership of Humana Medical Plan of Utah, Inc.:



Transactions with Affiliates

The Organization is included in the consolidated federal income tax return of Humana and its wholly-owned subsidiaries. Under a written agreement, Humana allocates its federal income tax liability among the subsidiaries of the consolidated group (including the Organization) based on the ratio that each subsidiary's separate tax liability for the year bears to the sum of the separate tax liabilities of all subsidiaries. The final settlement under this agreement is made within thirty (30) days after the calculation of any federal and state income tax expense attributable to the Organization. In the event of a refund, settlement is made within thirty (30) days of receipt of the refund.

The Organization has written management and service contracts with Humana and other related parties, whereby the Organization is provided with medical and product management, executive management, information systems, financial services, billing and enrollment, claims processing, marketing, and other services. A pro rata share of these

costs is allocated to the Organization, subject to a maximum fee of 15% of premium. Management fees during 2013 were approximately \$4.9 million.

The Organization has an indemnity agreement, whereby Humana indemnifies the Organization from liability, loss, or damage it may suffer as a result of its failure to perform its obligations arising under certificates of coverage issued or assumed in respect to the furnishing of health care services to its subscribers should it become insolvent or otherwise financially incapable of furnishing such health care services. Humana guarantees continuation of coverage issued for the duration of the contract.

FIDELITY BONDS AND OTHER INSURANCE

The minimum fidelity coverage suggested by the NAIC for the Organization's size and premium volume is not less than \$400,000. As of the examination date, the Organization participated in Humana's fidelity/crime coverage of \$25,000,000. The Organization is also covered under Humana's policies for fiduciary liability, directors and officers, cyber risks, professional and general liability, workers' compensation, and other risks.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Organization has no employees and thus it offers no employee benefit programs or life and health insurance plans for employees. All personnel working on behalf of the Organization are employees of Humana Inc. or other affiliated companies that provide services pursuant to administrative and service agreements.

TERRITORY AND PLAN OF OPERATION

As of the examination date, the Organization is licensed in the state of Utah to sell dental, vision, and Medicare Advantage plans in several Utah counties. In addition, as of January 1, 2014, the Organization began offering individual coverage through the health insurance exchange under the provisions of the Patient Protection and Affordable Care Act (ACA).

As of December 31, 2013, the Organization had 7,181 members, with a total of 84,284 member months. The Organization offers coordinated health and pharmacy insurance coverage and related services through a variety of plans for government-sponsored programs. Under the Organization's federal government contracts with the Centers for Medicare and Medicaid Services (CMS), it provides health and pharmacy insurance coverage to Medicare-eligible members.

The Organization markets its products primarily through a network of independent agents and agencies. The current marketing plan is to continue the Medicare Advantage product in Utah, and also provide ongoing education to brokers regarding Humana's complement

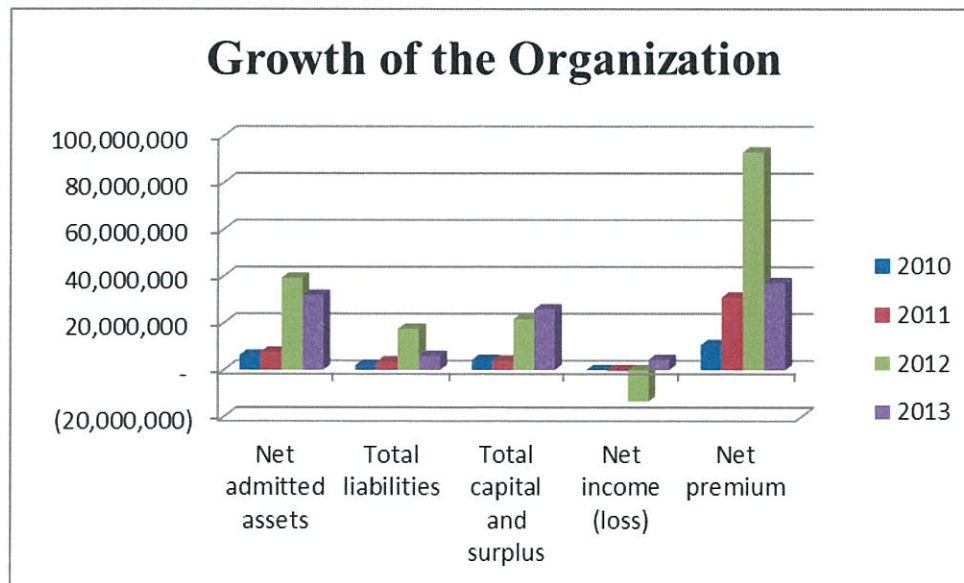
of health, dental, vision, and specialty products, with new product offerings leading its marketing efforts.

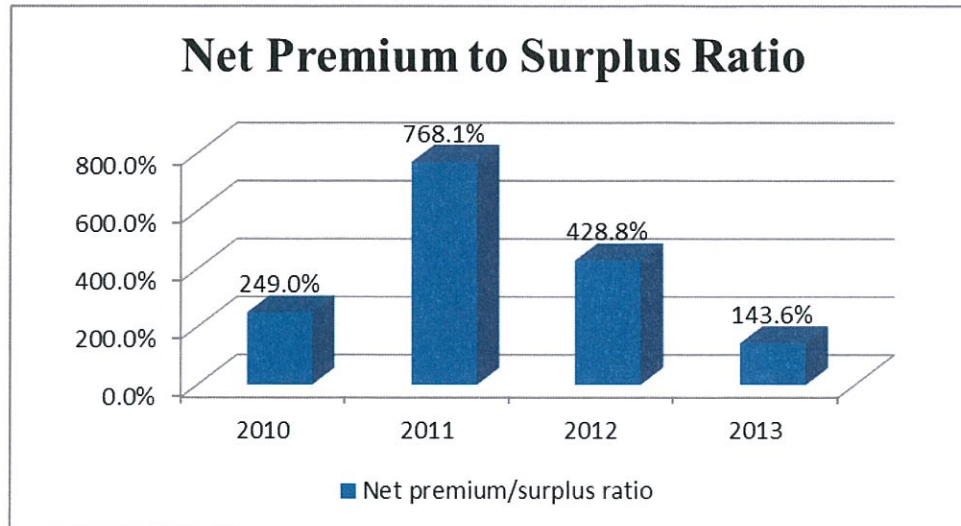
GROWTH OF ORGANIZATION

The Organization experienced significant increases in premiums and expenses in 2011 and especially 2012, resulting in net losses in both years. The Organization's parent, Humana Inc., contributed capital to the Organization in the amounts of \$1,500,000 in 2011 and \$30,000,000 in 2012 to offset these losses. The increases in premiums and expenses in 2011 and 2012 and associated net losses were primarily due to the addition of a large group, which performed poorly. The Organization terminated its contract with this group, effective January 1, 2013. The net premium to surplus ratio increased substantially in 2011 and then decreased in 2012 and 2013.

The Organization's financial results throughout the examination period:

<u>Description</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net admitted assets	\$32,036,589	\$39,265,683	\$ 7,678,617	\$6,354,098
Total liabilities	6,087,506	17,542,106	3,635,540	2,062,747
Total capital and surplus	25,949,083	21,723,577	4,043,077	4,291,351
Net income (loss)	4,442,454	(13,451,635)	(470,564)	1,302
Direct – Total premiums	37,265,647	93,143,905	31,053,931	10,684,440
Net premium	37,265,647	93,143,905	31,053,931	10,684,440
Net premium/surplus ratio	143.6%	428.8%	768.1%	249.0%





LOSS EXPERIENCE

Underwriting results for the period under examination:

<u>Description</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net premium income	\$37,265,647	\$93,143,905	\$31,053,931	\$10,684,440
Total medical and claims adjustment expenses	\$34,934,661	\$94,088,021	\$28,754,560	\$ 9,169,206
Net loss ratio	94%	101%	93%	86%
Member months	82,284	175,152	68,234	24,329

REINSURANCE

The Organization has a ceding reinsurance agreement with Connecticut General Life Insurance Company that reinsures all group Medicare Advantage products sold pursuant to a Medicare Alliance Agreement (CIGNA contract) with the Organization's parent, Humana Inc., CIGNA Insurance Agency, LLC, and Connecticut General Life Insurance Company. However, the Organization has not sold any products covered by the reinsurance agreement. The CIGNA contract is in run-off and the Organization will not have any future business associated with this contract and it is not considered significant. The Organization is protected under an Indemnity Agreement with Humana Inc. as noted in Transactions with Affiliates.

ACCOUNTS AND RECORDS

The Organization's accounting systems were maintained on a local area network. Subsidiary records were maintained in commercial software applications on stand-alone personal computers.

An independent certified public accounting firm audited the Organization's records during the period covered by this examination. Audit reports generated by the auditors for the years 2010 through 2013 were made available for the examiner's use.

STATUTORY DEPOSITS

The Organization's statutory deposit requirement was \$1,338,953 pursuant to U.C.A. § 31A-8-211(1). The examination confirmed the Organization maintained a statutory deposit consisting of U.S. Treasury Bonds and a U.S. Aggregate with a market value of \$1,698,007 and a par value of \$1,650,000, which was adequate to cover the required deposit of \$1,338,953.

FINANCIAL STATEMENTS

The following financial statements were prepared from the Organization's accounting records and the valuations and determination made during the examination. The accompanying COMMENTS ON FINANCIAL STATEMENTS are an integral part of the financial statements.

HUMANA MEDICAL PLAN OF UTAH, INC.
BALANCE SHEET
as of December 31, 2013

ASSETS

	Net Admitted Assets
	<hr/>
Bonds	\$24,412,970
Cash and short-term investments	5,029,329
Investment income due and accrued	89,736
Uncollected premiums and agents' balances	68,550
Accrued retrospective premiums	1,043,085
Amounts receivable relating to uninsured plans	598,679
Current federal and foreign income tax receivable and interest thereon	618,405
Health care and other amounts receivable	<hr/> 175,835
Total Assets	<hr/> <hr/> \$32,036,589

LIABILITIES, SURPLUS AND OTHER FUNDS

	Current Year
	<hr/>
Claims unpaid	\$4,698,904
Unpaid claims adjustment expenses	72,934
Aggregate health policy reserves	127,266
Premiums received in advance	102,519
General expenses due or accrued	3,891
Remittance and items not allowed	22,171
Amounts due to parent, subsidiaries and affiliates	959,923
Liability for amounts held under uninsured plans	81,970
Medicare risk adjustment premium payable	<hr/> 17,928
Total Liabilities	\$ 6,087,506
Common capital stock	1,000
Gross paid in and contributed surplus	35,500,000
Unassigned funds (surplus)	<hr/> (9,551,917)
Total Capital and Surplus	<hr/> 25,949,083
Total Liabilities, Surplus and Other Funds	<hr/> <hr/> \$32,036,589

HUMANA MEDICAL PLAN OF UTAH, INC.
SUMMARY OF OPERATIONS
for the Year Ended December 31, 2013

	<u>Current Year</u>
Net premium income	\$37,265,647
Total Revenues	<u>\$37,265,647</u>
Hospital/medical benefits	\$27,915,687
Other professional services	400,852
Emergency room and out-of-area	985,446
Prescription drugs	3,031,035
Total hospital and medical expenses	<u>\$32,333,020</u>
Claims adjustment expenses	\$ 2,601,641
General administrative expenses	4,864,418
Increase in reserves	(5,590,000)
Total underwriting deductions	<u>\$34,209,079</u>
Net underwriting gain or (loss)	<u>\$ 3,056,568</u>
Net investment income earned	\$ 462,972
Net realized capital gains (losses)	45
Net investment gains (losses)	<u>\$ 463,017</u>
Miscellaneous income	3,738
Net income or (loss) after capital gains tax and before all other federal income taxes	<u>\$ 3,523,323</u>
Federal and foreign income taxes incurred	(919,131)
Net Income (Loss)	<u><u>\$ 4,442,454</u></u>

HUMANA MEDICAL PLAN OF UTAH, INC.
RECONCILIATION OF CAPITAL AND SURPLUS
2010 through 2013

	<u>2010*</u>	<u>2011*</u>	<u>2012*</u>	<u>Per Exam 2013</u>
Capital and surplus prior reporting year	\$4,291,514	\$4,291,351	\$ 4,043,077	\$21,723,577
Net income (loss)	1,302	(470,564)	(13,451,635)	4,442,454
Change in net deferred income tax	139,937	158,613	2,096,686	(2,148,828)
Change in nonadmitted assets	(141,402)	(1,436,323)	(964,551)	1,802,033
Surplus adjustments: Paid in		1,500,000	30,000,000	
Aggregate write-ins for gains or (losses) in surplus				129,847
Net change in capital and surplus	(163)	(248,274)	17,680,500	4,225,506
Capital and surplus end of reporting period	<u>\$4,291,351</u>	<u>\$4,043,077</u>	<u>\$21,723,577</u>	<u>\$25,949,083</u>

* Per the regulatory financial statements filed with the Utah Insurance Department.

COMMENTS ON FINANCIAL STATEMENTS

The Organization's capital and surplus was determined to be \$25,949,083, as reported in the Annual Statement as of December 31, 2013.

The Organization's minimum capital requirement was \$100,000 as defined in U.C.A. § 31A-8-209(1)(a). As defined by U.C.A. § 31A-17 Part 6, the Organization had total adjusted capital of \$25,949,083, which exceeded the company action level risk-based capital (RBC) requirement of \$3,166,590 by \$22,782,493.

ACKNOWLEDGEMENT

Joseph C. Higgins, FSA, MAAA, of INS Consultants, Inc., performed the actuarial phases of the examination. Tracy Gates, CFE, CISA, CPA, Principal and IT Specialist of Highland Clark, LLC, performed the information systems review. Donald Catmull, CFE, Assistant Chief Examiner, supervised the examination. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Organization.

Respectfully Submitted,



David L. Flores, CPA, CFE, APIR
Examiner-in-Charge
Utah Insurance Department